

Metropolitan Transportation Commission

Reports on Federal Award Programs in
Accordance with OMB Circular A-133
For the Fiscal Year Ended June 30, 2008

04941

Metropolitan Transportation Commission
Reports on Federal Award Programs in Accordance with OMB Circular A-133
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**Report of Independent Auditors on Internal Control Over
Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Commissioners of the
Metropolitan Transportation Commission:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Metropolitan Transportation Commission ("MTC") as of and for the year ended June 30, 2008, which collectively comprise MTC's basic financial statements and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MTC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MTC in a separate letter dated September 26, 2008.

This report is intended solely for the information and use of the Commission, management and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 26, 2008

**Report of Independent Auditors on Compliance With Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

To the Commissioners of the
Metropolitan Transportation Commission:

Compliance

We have audited the compliance of the Metropolitan Transportation Commission ("MTC") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. MTC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of MTC's management. Our responsibility is to express an opinion on MTC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MTC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MTC's compliance with those requirements.

In our opinion, MTC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 08-01.

Internal Control Over Compliance

The management of MTC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered MTC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of MTC's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of MTC as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise MTC's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

MTC's response to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit MTC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Commission, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 26, 2008

Metropolitan Transportation Commission

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Metropolitan Transportation Commission

Federal Grantor/Program Description	Federal CFDA Number	Identifier Number Assigned by Pass Through Entity	Expenditures
U.S. Department of Transportation:			
FHWA Highway Planning and Construction (M)			
Flow Through from the California Department of Transportation:			
Grant Identification Number:			
08 OWPMTCM (FHWA)	20.205	04-6084	\$ 6,940,638
08 OWPMTCM (SP&R)	20.205	04-6084	476,398
HPLUL 6084(127)	20.205	04-6084	384,083
CMLN-6084 (080)	20.205	04-6084	228
STPL-6084 (087)	20.205	04-6084	58,752
CMLN-6084 (088)	20.205	04-6084	224,323
CMLN-6084 (089)	20.205	04-6084	50,077
CMLN-6084(105)	20.205	04-6084	346,688
CMLN-6084 (108)	20.205	04-6084	101,135
CMLN-6084 (078)	20.205	04-6084	84,724
STPCML-6084(095)	20.205	04-6084	7,539,450
CMLN-6084 (103)	20.205	04-6084	710,137
STPCML-6084(122)	20.205	04-6084	1,346,417
CMLN-6084 (126)	20.205	04-6084	555,593
CMLN-6084 (123)	20.205	04-6084	477,292
CMLN-6084 (129)	20.205	04-6084	4,787,163
CMLN-6084 (136)	20.205	04-6084	39,960
STPCML-6084(137)	20.205	04-6084	23,238
CMLN-6084 (132)	20.205	04-6084	57,367
STPL-6084 (094)	20.205	04-6084	56,315
STPL-6084 (095)	20.205	04-6084	1,128,563
STPL-6084 (097)	20.205	04-6084	32,481
STPL-6084 (098)	20.205	04-6084	512
STPL-6084 (099)	20.205	04-6084	10,000
STPL-6084 (100)	20.205	04-6084	62,266
STPL-6084 (110)	20.205	04-6084	850,000
STPCML-6084(107)	20.205	04-6084	54,192
STPL-6084 (104)	20.205	04-6084	512,077
STPCML-6084(115)	20.205	04-6084	1,062,577
STPL-6084 (119)	20.205	04-6084	221,358
STPL-6084 (120)	20.205	04-6084	109,421
STPCML-6084(122)	20.205	04-6084	4,415,404
STPL-6084 (125)	20.205	04-6084	140,483
STPL-6084 (116)	20.205	04-6084	195,653
STPCML-6084(137)	20.205	04-6084	2,938,900
STPL-6084 (131)	20.205	04-6084	598,842
STPL-6084 (083)	20.205	04-6084	142,836
STPL-6084 (111)	20.205	04-6084	412,566
STPL-6084 (124)	20.205	04-6084	733,902
STPL-6084 (138)	20.205	04-6084	4,874,146
Total			<u>42,756,157</u>

Metropolitan Transportation Commission

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Metropolitan Transportation Commission

Federal Grantor/Program Description	Federal CFDA Number	Identifier Number Assigned by Pass Through Entity	Expenditures
Federal Transit Administration			
FTA Federal Transit - Metropolitan Planning Grants (M)			
Flow Through from the California Department of Transportation:			
Grant Identification Number:			
08 OWPMTCM (FTA)	20.505	04-6084	\$ 3,052,195
08 OWPMTCM (FTA 5305)	20.505	04-6084	433,962
CA-90-Y025-07	20.505	1655	115,205
CA-37-X076-00	20.505	1655	302,264
CA-37-X043-00	20.505	1655	-
CA-37-X044-00	20.505	1655	115,846
CA-37-X064-00	20.505	1655	232,229
CA-90-Y002-00 (PASSTHRU-FTA)	20.505	GGBHTD - 1701	784,626
CA-90-Y092-00	20.505	GGBHTD - 1701	-
CA-90-Y401-00	20.505	GGBHTD - 1701	235,432
Total			<u>5,271,759</u>
Federal Emergency Management Agency			
FEMA Pre-disaster Mitigation Competitive Grant (M)			
Flow Through from the California Office of Emergency Services:			
Grant Identification Number:			
CA-2005-057	97.017	001-91015	<u>2,699,458</u>
Total MTC Federal Awards			<u>\$ 50,727,374</u>

(M) - Indicates a major federal program

Metropolitan Transportation Commission
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Service Authority for Freeways & Expressways

Federal Grantor/Program Description	Federal CFDA Number	Identifier Number Assigned by Pass Through Entity	Expenditures
U.S. Department of Transportation			
FHWA Highway Planning and Construction (M)			
Flow Through from the California Department of Transportation:			
Grant Identification Number:			
CML-6084 (082)	20.205	04-6084	\$ 387,772
CML-6160 (014)	20.205	04-6084	530,305
CML-6160 (010)	20.205	04-6084	772,259
Total SAFE Federal Awards			<u>\$ 1,690,336</u>
Total Federal Awards			<u>\$ 52,417,710</u>

(M) - Indicates a major federal program

Metropolitan Transportation Commission

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all expenditures of federal award programs of the Metropolitan Transportation Commission ("MTC"). The MTC's reporting entity is defined in Note 1 to the MTC's financial statements. Federal awards from the U.S. Department of Transportation and Federal Transit Administration are received through the California Department of Transportation. Federal awards from the Federal Emergency Management Agency are received through the California Office of Emergency Management.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Federal grant awards are billed on a cash reimbursement basis. MTC's financial statements are prepared on the accrual and modified-accrual basis, which are described in Note 1 of the notes to the MTC's financial statements.

3. Subrecipient

Under the Federal Highway Administration Grant, MTC provided \$1,163,422 and \$6,163,449 in federal awards to its subrecipients, Association of Bay Area Governments and the nine counties' Congestion Management Agency, respectively.

Under the FTA Technical Studies Grant, MTC provided \$188,927 and \$728,241 in federal awards to its subrecipients, Association of Bay Area Government and Transit Operators, respectively.

4. Total Federal Awards

The following table represents the total expenditures of federal awards by the associated Catalogue of Federal Domestic Assistance (CFDA) program numbers

CFDA Number	Program Description	Expenditures
20.205	Highway Planning and Construction	\$ 44,446,493
20.505	Federal Transit - Metropolitan Planning Grants	5,271,759
97.017	PreDisaster Mitigation Competitive Grant	2,699,458
	Total	<u>\$ 52,417,710</u>

Metropolitan Transportation Commission
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

I. Summary of Auditor's Results

1. Financial Statements

Type of auditor's reported issued: Unqualified

Internal control over financing reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None Reported

Noncompliance material to financial statements noted? No

2. Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of auditor's reported issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

3. Identification of Major Programs

CFDA/Grant Numbers	Name of Federal Program or Cluster	
CFDA 20.205	Highway Planning and Construction	
CFDA 20.505	Federal Transit – Metropolitan Planning Grants	
CFDA 97.017	Pre-Disaster Mitigation Competitive Grants	
Dollar threshold used to distinguish between Type A and Type B programs:		\$1,572,531
Auditee qualified as low-risk auditee?		No

Metropolitan Transportation Commission

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

II. Financial Statement Findings

There were no financial statement findings for the year ended June 30, 2008.

III. Federal Award Findings and Questioned Costs

Item 08-01: Compensation for personnel services

Questioned Cost: \$20,614

Federal Agency: Federal Highway Administration (FHWA)

CFDA Number and Title: 20.205: Highway Planning and Construction

Criteria

OMB Circular A-87, Attachment B, reference 8(h) stipulates a number of required supports for personnel compensation costs charges to a grant. MTC employees report their activities directly to Ceridian and those time cards are reviewed by management. The grants are charged based on the time codes charged on the time cards.

Condition

In reviewing the personnel compensation cost selections for charged time in October 2007, the Ceridian Payroll Registers did not agree to the journal entries posted for compensation costs. These postings are utilized in the calculations to determine charges to the grant for Salaries, Benefits, and Indirect Costs. For the pay period ended October 19, 2007, the hours charged to specific time codes were not properly mapped from the Ceridian data into the General Ledger.

Questioned Cost

An analysis was performed to determine the total impact of the error. Based on the calculation performed, grants issued under CFDA 20.205 were overcharged a total of \$20,614.

Cause

The time codes are manually mapped from the Ceridian reports into the general ledger by a specific employee. For this particular pay period, this procedure was performed by an alternate employee.

Effect

Having a manual process in place to perform this procedure leaves this process susceptible to errors such as the one encountered. Further, alternate staff performing the procedures must undergo the necessary preparation in order to perform this process.

Recommendation

We recommend a review of the process performed to develop a more automated method for mapping the Ceridian data into the general ledger. Further, a reconciliation should be performed and reviewed by an independent individual at the work item level to determine that the mapping has been performed properly.

Management's Views and Corrective Action Plan

Management's views and Corrective Action Plan were included in the 2008 report on MTC letterhead.

IV. Summary Schedule of Prior Year Findings

There were no federal award findings or questioned costs for the year ended June 30, 2007.



METROPOLITAN
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COMMISSION

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September 24, 2008

The management of MTC concurs with the finding No. 08-01 as stated within this report as well as the computation of questioned costs resulting from this finding. We present the following corrective action plan.

The corrective action plan will include adoption of an independent verification of time card data to the general ledger at the program level. Although time card data is compared and reconciled to the general ledger each payroll cycle, it was not compared at the program level. A report comparison will be performed in more detail each payroll cycle to ensure that programs are properly billed.

This error has been corrected and will be reflected in the final reimbursement request for fiscal year 2008.

The contact person for this corrective action plan is Brian Mayhew. I can be reached at 510-817-5730.

Sincerely,



Brian Mayhew
Chief Financial Officer